MICHIGAN ELECTRIC AND GAS ASSOCIATION

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Testimony of James A. Ault,
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Senate Energy & Technology Committee
SB 438 (S-1 substitute)

September 2, 2015

Dear Committee Members:

On behalf of the Michigan Electric & Gas Association (MEGA) I submit the attached comments on SB 438 (S-1) for your consideration. MEGA will provide additional comments on SB 437 at the appropriate time. We appreciate the hard work and detailed information gathering by this committee on very challenging energy issues.

The attachments include a fact sheet showing the specific circumstances of MEGA utilities. A major factor is the lack of AMI metering, which supports coming up with an alternative method for setting an avoided cost rate for distributed generation (DG). MEGA generally supports the rationale as provided by the two largest utilities and EEI for changing the approach and requiring DG to "walk on its own" by reducing the subsidization. If "grandfathering" is considered, a reasonable time limit related to system payback (e.g. 10 years) should be considered as well.

We are happy to provide specific language and work with the committee and interested parties as needed. Thank you for your efforts and consideration of the points raised by our member electric and gas providers and the industry.

Very truly yours,

MICHIGAN ELECTRIC AND GAS ASSOCIATION

James A. Ault
President

Alpena Power Company
Aurora Gas Company
Citizens Gas Fuel Company
Indiana Michigan Power Company
Michigan Gas Utilities
SEMCO Energy Gas Company
Upper Peninsula Power Company
We Energies
Wisconsin Public Service Corporation
Xcel Energy

Michigan Electric and Gas Association

Comments on Senate Bill 438

Substitute S-1 Version

Part 1 – General Provisions

In general, MEGA supports the shifts in terminology from "renewable energy" to "clean energy" and from "energy optimization" to "energy waste reduction".

Part 2 – Energy Standards

Subpart A Clean Energy f/k/a Renewable Energy

MEGA has no position regarding "clean energy" as a specific standard in HB 438 because "standards" language for Part 2, Subpart A has not yet been proposed. As a general matter, MEGA is supportive of a broad concept clean energy standard that recognizes power supply sources that comply with the definition of "clean energy resource" in Section 3 (F).

MEGA supports the removal of mandatory renewable energy portfolio standards as proposed. The RPS approach is neither flexible nor easily adaptable due to the use of a statewide number that fails to consider capacity need, system variations among utilities inadequate consideration of need and cost effectiveness. We are concerned that until the EPA Clean Power Program state implementation plans (SIPs) are finalized or closer to finalization, more legislation may be needed for coordination of measures to comply with the federal directives. It appears likely that efficiency and renewable measures will be essential elements in compliance aspects of energy supply implemented through the SIP and IRP (SB 437) process.

Subpart B – Customer Requested Renewable Energy

This proposal could be interpreted in a manner which leads to unintended consequences that disrupt small utility system planning. A large customer might specify that 100% of its electricity be renewable energy. Groups of customers might vary their percentages frequently or collectively seek high amounts of renewable energy, with an impact on supply planning. As proposed, electric providers are <u>required</u> to offer these programs and determine the options available. Customers <u>must be allowed</u> to specify their <u>percentage</u> of renewable energy, however, which might be interpreted as requiring the 100% option. We propose that the word "percentage" on P 26, L 15 be changed to "an amount." This change would be consistent with the apparent intent to allow the utility to determine the scope of the program, subject to MPSC approval.

MEGA members have offered voluntary green energy programs and expect to continue doing so. Adaptability favors allowing utilities to tailor these plans to their individual circumstances.

Subpart C – Energy Waste Reduction

MEGA supports the proposal insofar as it phases out the electric EO mandates over 3 years and provides ongoing program flexibility and a possible opt-out for gas utilities. The continuation for 3 more years will allow coordination of WR approaches with the Clean Power Plan state SIP. A more adaptable approach for any type of utility would be to authorize the MPSC to approve waste-reduction programs on a utility-specific basis, on application. Programs could then be tailored to the local customer base and more easily modified.

MEGA suggests removing the specific references to the "2015 Michigan Energy Measures Database Supplied by Morgan Marketing Partners" on pages 39 and 42 of the proposed bill. Possible substitute language: "....determined using a savings database or such other savings measurement approach as determined to be reasonable by the commission." This is a technical change to avoid establishing a legislative directive for a single private entity to supply the product.

MEGA proposes that the matter of line-item identification of waste reduction charges on utility bills be a matter of utility discretion, instead of prohibited in Sections 89(2) and 91(2). This change will allow the option of identifying these costs so that customers may obtain more explanation.

In the event electric waste reduction requirements are continued beyond 2018, MEGA urges the legislature to include recognition of utility system improvements that achieve energy savings or load smoothing to reduce peak demand. The need to establish programs to reduce CO_2 emissions will likely be met with "all of the above" strategies, which should include internal system efficiency.

Part 5 – Distributed Generation and Net Metering

The proposal in this section increases the size limit for eligible generators to 110% of customer average annual consumption, and the utility program size limit to 10% of load. There has been insufficient showing that the current program limits require changes. Net metering is well below the program size limit for Michigan utilities as indicated in the latest MPSC annual net metering report. The recent 25% growth is from a very low amount and more time is needed to assess the economics of solar power responsible for most of that growth. There is still ample room for customer generation in the existing program.

MEGA supports the overall proposal to adjust the DG program to rationalize the compensation for energy supplied to the grid and to assure that the DG customers support the non-variable grid system costs such as transmission, distribution and utility

operations. Compensation to DG customers at retail rates that include all aspects of the utility business, such as fixed infrastructure, billing, lineworkers, emergency response and much more is not appropriate for power fed to the grid by customers without those business costs, who have no public service obligations to others and do not face direct service and price regulation. Utility purchases of customer-provided electric energy occur as an involuntary transaction required by law, without consideration of the purchaser's need for the energy or other circumstances affecting its value. Avoided cost or market value is more appropriate compensation for the energy than the utility retail rate.

MEGA electric utilities do not have AMI metering for their Michigan operations. This will inhibit their ability to calculate the avoided cost or value of energy based on time-varying MISO data and customer supply of energy, under the measures in Section 177(3) for net metering customers. We propose adding a provision indicating that the MPSC may approve an average avoided cost rate for energy and capacity, for use where existing metering and cost considerations do not justify application of the proposed method. The MPSC could develop a market rate for customer outflow and a rate charge for use of the grid to achieve a similar policy.

Part 7 – Residential Energy Improvements

MEGA questions the need for on-bill financing because credit for home projects is widely available at low interest rates in Michigan and the Michigan Saves financing project has been successful.

MEGA appreciates the option provided in Section 203(1) for the provider to decide whether to offer a residential energy improvement program. The language in the first sentence of Section 205(1) arguably conflicts by requiring such a program. This should be clarified. Moreover, Sections 203 and 205 require on-bill financing as a necessary element of any plan. Our suggestion is to allow the MPSC to approve on-bill financing if it is proposed, but not mandate its inclusion in every plan, which could be a disincentive to file a plan.

MEGA MEMBER UTILITIES – QUICK FACTS

Electric Service Providers (6): Alpena Power Company, Indiana Michigan Power Company, Northern States Power Company d/b/a Xcel, Upper Peninsula Power Company, We Energies, Wisconsin Public Service Corporation (WPS).

Natural Gas Service Providers (6): Aurora Gas Company, Citizens Gas Fuel Company, Michigan Gas Utilities, SEMCO Energy Gas Company, WPS, Xcel.

Company Ownership: All are privately owned companies (IOUs); several are part of multistate energy companies – Xcel Energy, AEP and the new WEC Energy Group formed from the merger of Integrys and Wisconsin Energy.

Regulation: All MEGA electric and gas service providers are fully regulated for rates and service by the Michigan Public Service Commission (MPSC), except for Aurora Gas Company and Citizens Gas, subject to local municipality regulation.

Customers Served: Collectively, these companies serve approximately 245,000 electric customers or about 5.5% of all non-municipal electric customers in this state. The gas providers serve approximately 440,000 customers or about 13.8% of the total gas customers in Michigan.

Areas Served: Electric service is rendered in a large part of the Upper Peninsula, the Alpena area and part of Southwest Lower Michigan. Gas service occurs in both peninsulas. I&M provides electric service in Michigan and Indiana. Xcel, WPS and We Energies serve customers in both Michigan and Wisconsin.

Energy Optimization: All MEGA members initially opted to have programs administered by Efficiency United, the state administrator. These providers contribute a fixed percentage of revenue to fund Efficiency United and receive no incentives. Recently, SEMCO and I&M chose to run their own EO programs allowing them to seek incentives for superior performance. They continue to coordinate offerings with Efficiency United. The programs have met Act 295 standards.

Renewable and Clean Energy: The MEGA electric service providers are able to meet the Act 295 renewable energy targets, primarily through renewable facilities located in the extended footprint in Michigan, Indiana and Wisconsin, hydroelectric facilities in Michigan and the purchase of renewable energy credits. The only large fossil energy plant in Michigan operated by a member electric company is the We Energies Presque Isle Power Plant in Marquette. I&M operates the D.C. Cook nuclear plant in Berrien County.

Green Energy Pricing: Four of the six member electric providers have offered green energy pricing options. The programs are UPPCo Green, Energy for Tomorrow (We Energies), Wind Source (Xcel) and Nature Wise (WPS), all of which have a premium price for designated amounts of green energy.

Net Metering: Nearly all of the net metering customers of MEGA electric providers have Category 1 (0-20 kW) generation systems. Participation has been light and generally nowhere near the provider cap set at 0.5% of system peak load. Collectively these providers have 152 net metering customers; all but one are Category 1 (data through 2014). UPPCo (69), I&M (29) and We Energies (28) have the most. As described in the MPSC Net Metering and Solar Program Report for 2014, recently released, even with recent increases in participation the total for all Michigan electric providers is only 0.015% of sales, far below the program size cap set at 0.5% of sales (Category 1). These customers receive "true net metering" and do not pay distribution costs included in the utility variable rate, for power generated by their units. Net metering growth is continuing, for example UPPCo is up to 87 customers at the end of July, 2015.

Existing Net Metering Configuration: All but one customer of I&M fall into the "true net metering" Category 1 classification, with units sized no larger than customer need and always below 20 kW. As reported in the MPSC Net Metering Report, Appendix A, in the MEGA group there are 90 solar, 61 wind and 2 hydro net metering customers (2014), mostly with UPPCo, We Energies and I&M. Of these, 112 are from 0-5 kW. These customers are metered with electromechanical or AMR digital meters. Inflow and outflow are netted, and the customers avoid the utility non-generation charges because the site consumption bears no utility system costs.

SmartGrid/AMI: None of the MEGA electric utilities have installed advanced metering infrastructure (AMI) equipment and associated billing systems, due to their cost and the investment in existing metering systems. Most of the providers upgraded to automated meter reading (AMR) equipment that provides costs savings in reading meters. For example, Alpena Power recently installed a system that cost approximately $1.4 million for meters, labor and software. Meter costs are significant where they must be borne by relatively few customers, about 17,000 in Alpena's case.

Peak Annual and Hourly Demand: UPPCo and Xcel are winter peaking electric utilities (lower A/C, more electric heat). Alpena Power used to have a winter peak but in recent years has been summer peaking. I&M, We Energies and WPS have summer peaking systems. Summer peaks occur in July or August, depending on when the hottest days fall. Winter peaks are in December or January. All companies experience daily peak demand in the late afternoon, as early as 2-3 pm for I&M but typically closer to 4-5 pm. Even after the daily peak, demand remains high into the evening when residential customers are using more energy. It drops off gradually into the evening.